

The Chair
CABINET ECONOMIC DEVELOPMENT COMMITTEE

NEW ZEALAND TRADE AND ENTERPRISE: PAPER 4 - GROWTH SERVICES

PROPOSAL

1 This paper sets out the rationale for, objectives and composition of the growth services to be delivered by New Zealand Trade and Enterprise (NZTE), and proposes a range of further work on policy and delivery refinements for this service range.

EXECUTIVE SUMMARY

2 For 2003/04, growth services represent 36% (\$61 million, GST inclusive where applicable) of the combined agencies' funding (for both services and grants). Services in this range provide customised business and international market development assistance, targeted at firms (and groups of firms) with significant growth potential in order to accelerate their development and enhance their contribution to New Zealand's overall economic growth.

3 The growth services range will offer an integrated approach to assisting New Zealand businesses to be internationally competitive, allowing a number of issues to be addressed either individually or in concert. The range will also focus on the need to be responsive to specific firm needs at particular phases – or 'transition' points – of a firm's development.

4 The growth services range will involve:

- A relative emphasis on businesses with significant growth potential, while maintaining access to some assistance for a wider group of SMEs.
- An integrated approach to client management with a team of client managers as the primary interface with clients, providing appraisal and facilitating clients' access to the necessary expertise and resources they require to successfully grow their businesses. The level of engagement with clients will depend on their growth potential and needs. More intensive and proactive client management will be available for high-growth/high-impact potential clients.
- A mix of part-funded in-house and contracted services and the use of grants to part-fund the purchase of external assistance.

5 NZTE will continue to deliver a range of specialist information and advisory services to support international market development, as currently delivered through Trade NZ. These services include market evaluation and selection, buyer/partner identification, market visits and market monitoring. The services will be delivered in-house, drawing on market development specialists both onshore and offshore and through the ebusiness portal. Part of the costs of this service will be recovered through user charges, which will vary depending on the costs of different markets and the precise services provided.

6 It is proposed that Industry New Zealand's Business Growth grants be replaced with a Growth Services Fund aimed at assisting high growth potential firms to purchase external advice and expertise and market intelligence and development services. It is considered that

grants would be for up to a maximum of 50% of the costs of the qualifying projects, and normally be in the range of \$50,000 to \$500,000.

7 NZ Trade and Enterprise will report back to the Ministers of Finance, Industry and Regional Development, Trade Negotiations, and Associate Foreign Affairs and Trade by 30 June 2003 on the detailed operation of the Fund, including criteria, funding caps for eligible activities and levels of delegation, approval processes, management of demand, and identifying how potential overlaps with the Foundation for Research, Science and Technology's (FRST) Technology NZ programmes will be managed.

BACKGROUND

8 In September 2002, Cabinet agreed in principle to integrate the services currently provided by Trade NZ and Industry NZ to better support the development of internationally competitive New Zealand business [CAB Min (02) 24/2 refers]. In November 2002, Cabinet agreed to the initial service range proposed by the Boards of Industry NZ and Trade New Zealand, consisting of three broad groups of services: enabling, foundation, and growth services. Cabinet also directed officials to report back on detailed service content and delivery [CAB Min (02) 30/4 refers].

9 This paper focuses on the policy rationale for, design of, and future changes to the growth services range.

GROWTH SERVICES

10 For 2003/04, the 'growth services' range will represent 36% (\$61 million, GST inclusive where applicable) of the combined agencies' funding. This consists of \$51 million (GST inclusive) for services and \$10 million (GST not applicable) for grants for services. Services in this range provide customised business and international market development assistance, targeted at firms (and groups of firms) with significant growth potential in order to accelerate their development and enhance their contribution to New Zealand's overall economic growth.

Policy Rationale

11 There are a number of New Zealand firms that, without assistance, are likely to lack the knowledge and/or capability to achieve their growth potential. This may be for a number of reasons, including:

- Owners often lack the management expertise (e.g. knowledge of foreign markets and the range of international market opportunities) required to grow their business significantly. Independent advice from experienced business advisors can help to identify opportunities and lift firms to the next stage of development while reducing the risk of failure;
- The pressures of day-to-day management and tight resource constraints can crowd-out a focus on long-term strategic issues. External advice and expertise can create "space" for this strategic thinking to occur; and
- Owners are often reluctant to cede control of their businesses, or may lack the confidence to take the necessary risks, in order to grow their businesses. Advice may help these people to objectively weigh up the risks and rewards.

12 While these considerations suggest that there are potentially significant benefits to firms from seeking external business assistance, they do not in themselves justify government intervention. That is because, in general, the benefits of business advisory services will principally accrue to the firms receiving the services. However, there are reasons why firms may under-invest in these services relative to what would be optimal from a "New Zealand Inc." perspective:

- Firms may not realise the benefits of external business advice – many firms lack the management expertise and knowledge necessary to grow their business and a self-help culture appears to be a barrier to seeking outside assistance. For example, businesses may wrongly perceive that they are too small to export or, alternatively, that they can easily go it alone.
- Some of the benefits of external business advice are external to the firm – for example, some firm owners do not develop their staff's managerial capabilities because they expect that the benefits will accrue to others when staff leave to work for other firms or set up their own businesses.
- For a nation of SMEs, government involvement may be the best way of gaining economies of scale for securing overseas contacts. The costs and time required to establish an offshore network may be prohibitive for smaller firms, or may not be justified for short term or limited engagement with particular markets.

13 There is a role for government to provide these services and accelerate business growth, while at the same time encouraging the development and delivery of economic development services by the private sector.

Contribution to Economic Development

14 The growth services range will enhance enterprise development through:

- *Facilitating access to new business opportunities.* The growth services range will enhance access to emerging markets and market development opportunities, as well as access to international contacts, networks and alliances.
- *Enabling access to skills and expertise.* A wide range of skills and capabilities are critical to firms' ability to pursue innovative and entrepreneurial opportunities. The growth services range will assist firms to develop management capability, access expertise and address specialist skill needs.
- *Supporting innovation and enhancing access to new technologies.* The growth services range will foster the capacity to create, absorb and commercialise new ideas generated in New Zealand or overseas. The design and delivery of these services will complement and be strongly aligned with the research, science and technology programmes funded by FRST and targeted at growth companies.
- *Enabling access to finance.* The growth services range will focus on demand-side issues that affect firms' access to finance, e.g. management capability, business planning, attitudes to external equity, and unrealistic expectations about business growth.

15 The growth services range will offer a much more integrated approach to assisting New Zealand businesses to be internationally competitive, allowing a number of issues to be addressed either individually or in concert. The range will also focus on the need to be responsive to specific firm needs at particular phases – or 'transition' points – of a firm's development.

THE GROWTH SERVICE RANGE

16 While the initial emphasis is on integrating the existing growth services offered by the two agencies, there is scope for some changes to service content in the short term. The approach here is to describe the proposed growth services model, and signal the changes that would be required to give effect to this.

Broad Approach

17 Appendix 1 sets out the proposed model for the growth services range. This approach involves:

- A relative emphasis on businesses with significant growth potential, while maintaining access to some assistance for a wider group of SMEs.
- An integrated approach to client management with a team of client managers as the primary interface with clients, providing appraisal and facilitating clients' access to the necessary expertise and resources they require to successfully grow their businesses. The level of engagement with clients will depend on their growth potential and needs. More intensive and proactive client management will be available for high-growth/high-impact potential clients.
- A mix of part-funded in-house and contracted services and the use of grants to part-fund the purchase of external assistance.
- The streamlining and simplification of grants, with the flexibility to address one or more of the barriers to firm growth discussed above.

Eligibility and Targeting

18 Trade NZ and Industry NZ currently maintain two respective approaches to governing access to 'growth services':

- access to Trade NZ's International Business Consultancy and Facilitation services requires a potential client to demonstrate that it is both committed to and capable of exporting. Services have been targeted or varied depending on client demand, ability to add value and the client's growth objectives
- access to Industry NZ's Business Growth Service and Fund is based around unrealised growth potential. Because the fund has limited resources, assistance has been targeted where it is likely to generate the greatest net benefits to New Zealand.

19 In both of these cases, access to specialised assistance is also subject to the client's willingness to pay a part-charge for the service or part-fund the costs of a funded project.

20 Following integration, access to the growth services range will be subject to an assessment of a firm's (or group of firms) growth potential and also involve an assessment of the firm's commitment and capability to achieve that growth. The level of engagement with the firm, both in terms of client management time and the level of funding/specialist services available will depend on a more rigorous assessment of the company against agreed criteria. In particular, access to the more substantive Growth Services Fund (see paragraphs 29 – 38) will be governed by a higher-level test of growth potential. Businesses will be assessed against rigorous criteria, and funding will depend on the type and level of need as well as the anticipated impact on the business's growth (funding criteria are discussed later in this paper).

Client Management

21 Underpinning the decision to integrate Trade NZ and Industry NZ has been the call from the business community for a single client interface and stronger follow-through on critical issues throughout a business's development path. This involves a deeper understanding of a client's business, a service range that targets key barriers to firm growth, higher levels of service quality and better relationships. The approach to client management adopted by the new organisation will thus be critical to the success of the integration exercise.

22 We propose that NZ Trade and Enterprise give effect to the following specifications in developing the growth services client management approach:

- Growth services clients should be allocated a client manager who will be the primary interface between the client and the services/assistance offered by the organisation.
- Growth services client managers' role should be to assess eligibility against agreed criteria, undertake or facilitate the appraisal of clients' needs and to determine the appropriate mix of services that the new organisation can provide, provide appropriate mentoring and commercial counselling (but not strategic business advice or advice that would constitute investment advice), and facilitate referrals to specialist services and funding – both within the new entity and from other government business assistance programmes.
- The duration and intensity of client management service should be proportional to the client's growth potential, risk profile and level of need. For the client, this engagement will fluctuate over time as they negotiate difficult transition points or, by contrast, experience periods of stability and consolidation. The client base will change over time with new firms accessing growth services and other firms 'graduating' or decreasing their interaction with NZTE.
- As well as working with clients, growth services client managers will need to establish and maintain linkages and partnerships with a range of individuals and organisations. This includes internal integration with other service range areas and supporting networks onshore and offshore, policy departments and other delivery agencies, and non-government providers of trade and business services. The offshore network of Trade Commissioners, working with the wider network of MFAT Posts, will be an important contributor to growth services. Partner organisations and private sector business advisors will be a major source of clients through referrals. In particular, NZTE should maintain the proactive approach to the identification of high growth potential business, working in partnership with local organisations, which has been established through the Fast Forward Programme.

23 Cabinet has signalled that services will need to be accessible and responsive to the needs of Maori, Pacific peoples and women [CAB Min (02) 30/4 refers]. Trade NZ has maintained a dedicated Maori Enterprise Team within its account management system for some years. This service has provided a high-level of responsiveness and effectiveness for Maori clients, and has received positive feedback during the stakeholder consultation process, and this approach will continue within the client management system.

24 The growth services client management system will draw on e-business tools. For example, the e-Business portal will link exporters to client managers and tailored services. The e-Business initiative is the subject of a budget bid for an additional \$1.900 million (GST inclusive) as part of the GIF package for 2003/04 and outyears.

FUNDING ACCESS TO SPECIALIST SERVICES AND SUPPORT

25 In addition to providing business appraisal, facilitation and basic advice, client managers will refer clients to specialist services and support. This support will address one or more enablers of firm growth as required. These services and support will be funded and delivered through one or more of the following:

- part-funded services provided by the new entity itself
- part-funded services provided by an external provider contracted to NZTE
- grant assistance (with co-payment requirement) for the purchase of specialist services and support.

26 We note that there are both historical and other reasons why either funded services or grants have been used in the past, and each type of delivery may be appropriate in a given context.

27 The Business Growth Fund and other Industry NZ funding programmes are currently offered on the basis of a maximum of 50 percent of the costs of a qualifying project. The tailored market information and development services provided by Trade NZ incorporate part charges at varied rates.

28 As discussed in Paper 1 – Overview, the following principles should apply to all financial assistance within the growth services range:

- the funding (direct or indirect) should, where practicable, reflect the mix of public and private benefits, balancing this with the need for administrative simplicity
- the funding (direct or indirect) should be as transparent as possible, allowing efficient ‘make’ or ‘buy’ decisions to be made on a periodic basis
- the level of assistance should be consistent across similar growth services. Consistency ensures competitive neutrality between those services provided in-house and those accessed externally via the grant mechanism – thus supporting the strategic goal of encouraging the development and delivery of economic services by the private and non-government sector
- charges and grants should be simple and clear for clients to understand and for the organisation to administer.

Growth Services Fund

29 It is proposed that Industry NZ’s Business Growth Fund be replaced with a more flexible Growth Services Fund to offer support for high growth potential firms to purchase external advice and expertise and market intelligence and development services. It is proposed that funding would be available to both firms and groups of firms, to facilitate access to the following enablers of business growth:

- new business opportunities
- skills and expertise
- innovation and new technologies
- finance.

30 The following discussion provides high-level direction for the design of the Fund. We recommend that NZTE report back to the Ministers of Finance, Industry and Regional Development, Trade Negotiations and Associate Foreign Affairs and Trade by 30 June 2003 on the detailed operation of the Fund, including criteria, funding caps for eligible activities and levels of delegation, approval processes, management of demand, and identifying how potential overlaps with FRST’s Technology NZ programmes will be managed. These guidelines should be developed in consultation with the Ministry of Economic Development (MED), Ministry of Foreign Affairs and Trade (MFAT), the Treasury, Te Puni Kokiri, Ministry of Pacific Island Affairs, Ministry of Women’s Affairs, Ministry of Research, Science and Technology, FRST and the Tertiary Education Commission, and should be consistent with the direction set out below.

Funding levels

31 It is proposed that the Growth Services Fund be highly flexible in terms of the level of funding provided. It is proposed that grants be for up to a maximum of 50% of the costs of the qualifying projects. Grants could be in the range of \$50,000 to \$500,000 although further work

needs to be undertaken on funding limits and levels of delegation for approval. \$10.125 million (GST not applicable) would be allocated to the Fund in 2003/04.

32 While the new fund is intended to provide a high degree of flexibility to address business growth issues, it is prudent to cap funding for certain types of activity – for example, for the travel cost component of a qualifying project. We propose that a funding schedule be developed by NZTE in close consultation with MED/MFAT.

33 NZTE will adopt higher levels of accountability and sign-off for projects of higher value.

Eligibility

34 To be eligible for funding, it is proposed that applicants will:

- be operating in a commercial environment, resident in New Zealand and registered for GST purposes
- be financially viable and have a management team with a sound track record
- have clear growth potential and a demonstrated commitment to growth
- show why they need this funding rather than any alternative funding
- demonstrate how the funding will add value to existing activities
- demonstrate a commitment to retain the value of the proposal in New Zealand
- have proposals and business concepts that are consistent with laws and regulations
- indicatively, have less than or equal to 100 full time equivalent employees and/or annual turnover of less than \$NZ50 million.

Funding access to market information/intelligence

35 It is proposed that NZTE support the provision of market intelligence and development services by external providers by allowing these services to be part funded via the Growth Services Fund. It is acknowledged that this will involve a measure of contestability with the subsidised market development services delivered by NZTE, but it is consistent with the organisation's core function of encouraging the development and delivery of economic development services by the private and non-government sector. This will require full unit-pricing if it is to be consistent with the principles outlined earlier (namely transparency around the rate of subsidy). As indicated in companion Paper 5 - Transition Costs, it is recommended that an output pricing review be considered for the full range of NZTE's services to gauge the level of funding support for and pricing of these services.

Excluded costs

36 No funding will be provided for normal business expenses. This is to ensure that grants add value to the recipient businesses (i.e. funding must be used for activity additional to that which would otherwise have occurred). Nor will funding be provided for activities that are provided by other government programmes (such as R&D and technology development currently supported by Technology NZ). The focus on building capability, rather than underwriting usual business expenses, aims to ensure that grants will contribute to substantive and sustainable business performance.

Treatment of travel costs

37 Travel, particularly overseas travel, is an area where significant costs can be incurred with little direct value and where past experience has shown that firms can take advantage of

funding. Notwithstanding this, there are instances where support for travel will lead to significant economic development opportunities and public benefits. For this reason we propose a measured approach to travel funding and a higher level of approval will be required.

Enterprise Development Grants Scheme

38 Growth service clients will have access to both the Growth Service Fund and the proposed Enterprise Development Grants scheme (as discussed in Paper 3 – Foundation Services). NZTE's client managers will determine which funding mechanism, if any, is appropriate for these clients, depending on the appraisal of business needs and growth potential. Clients will not, however, be able to access both funds at the same time.

Specialist Growth Services delivered by new entity

39 Both Trade NZ and Industry NZ deliver specialist services to firms and this will continue with integration. These services currently involve the provision of market information, development and facilitation assistance.

Tailored market development services

40 As New Zealand businesses internationalise, they are faced with various challenges: they need to handle exchange rate variability, cultural and language problems, deal with remote customers, work out pricing in new markets, link up with large and sophisticated customers abroad, and compete in a far more challenging market environment. Adapting to these challenges creates an additional discipline on firms and contributes to productivity improvements. To support this process, the new organisation will continue to deliver a range of information, advisory and facilitation services aimed at addressing barriers to market development. These services include:

- market evaluation and selection
- buyer/partner identification and selection
- identifying and qualifying international market opportunities
- market visits and in-market assistance
- market monitoring.

41 These services will be delivered through client managers and market development specialists both onshore and offshore. A portion of the cost of providing these services will be recovered through a charging regime. Third-party service providers will be utilised where appropriate.

Issues

42 Although Trade NZ currently utilises part-charging arrangements for these services, the precise level of subsidisation for each of these services is currently uncertain. To ensure transparency, NZTE will need to determine the value of these services, and the proportion of support attached to different services. NZTE will ensure that the proportion of support attached to specialist services that have the potential for contestability, e.g. market research reports, is consistent with the proportion of funding attached to grant monies that are paid out for similar purposes. In addition, MFAT will work closely with NZTE to ensure that services continue to be consistent with international obligations.

Investment Ready Scheme – Deal-Brokering and Training

43 The growth services range will also incorporate the deal brokering component and a customised capability development element of the Investment Ready Scheme (currently funded at \$0.866 million (GST inclusive) per annum). This scheme seeks to improve entrepreneurs' prospects of securing equity financing by providing a neutral deal brokering service to assess the commercial potential of ideas and for capital raisings under \$5m. An externally contracted provider currently delivers this service, and it is envisaged that this type of arrangement will continue. This scheme has just been reviewed by MED and it is proposed that the following minor adjustments be adopted by NZ Trade and Enterprise:

- the contract for services should be re-tendered every three years to ensure a measure of contestability;
- the broad and more generic training component of the scheme should be separated from the brokering service. As discussed in Paper 3 – Foundation Services, broader investment ready and capital raising training will be delivered as part of BIZ Training.

Linkages with other Government programmes

44 In assisting firms to address a spectrum of business growth issues, the question arises of how NZTE's growth services and Fund interface with other Government programmes. Of particular note here is the crossover with FRST's Technology NZ programmes in supporting innovation and access to new technologies. Cabinet is due to consider these wider issues in September 2003. However, in the short term, there is a need to ensure that there is a high degree of operational alignment and co-ordination with Technology NZ programmes. FRST will need to be fully involved in the detailed design of the Growth Services Fund to eliminate any overlaps, particularly with the Technology for Business Growth programme.

EVALUATING THE GROWTH SERVICES RANGE

45 We propose that the growth services range be fully reviewed by June 2005. In the short-term, the tasks will be largely around implementing the general approach set out in this paper.

CONSULTATION

46 The following departments and agencies have been consulted in the development of this paper: Trade New Zealand, Industry New Zealand, the Treasury, Department of the Prime Minister and Cabinet, Department of Labour, State Services Commission, Ministry of Research, Science and Technology, Foundation for Research Science and Technology, Te Puni Kokiri, Tertiary Education Commission, Ministry of Pacific Island Affairs, Ministry of Women's Affairs.

FISCAL IMPLICATIONS

47 Details of the fiscal implications and proposed output class and expense arrangements for growth services are provided in the companion papers: Paper 5 – Transition Costs and Paper 6 – Accountability Framework.

RECOMMENDATIONS

48 We recommend that the Committee:

- 1 **Note** that NZ Trade and Enterprise's Growth Services will comprise:

1.1 *Client management* whereby NZ Trade and Enterprise will operate a single new client management approach to growth services to cover all aspects of the service range from capability building to internationalisation

1.2 *Specialist services*, including a range of specialist information and advisory services to support capability and international market development, such as investment readiness, market evaluation and selection, and market monitoring

1.3 the *Growth Services Fund* which will offer funding assistance for firms and groups of firms with high growth potential, based on in-depth appraisal, to access specialist skills and expertise and for international market development activities;

2 **Note** that access to the growth services range will be based, in the first instance, on an assessment of a firm's growth potential and also involve an assessment of a firm's commitment and capability to achieve that growth;

Client Management

3 **Agree** that, in configuring the growth services client management system, NZ Trade and Enterprise should give effect to the following specifications:

- i 3.1 growth services client managers will:
 - provide appropriate mentoring and commercial counselling but not strategic business advice or advice that would constitute investment advice
 - facilitate referrals to specialist services and funding – both within NZ Trade and Enterprise and to other government business assistance programmes
- 3.2 the duration and intensity of client management service will be proportional to the client's growth potential, risk profile and level of need
- 3.3 growth service client managers will need to establish and maintain linkages and partnerships with a range of individuals and organisations
- 3.4 growth services client managers will need to be both accessible and responsive to the needs of Maori, Pacific peoples and women [Cab Min (02) 30/4 refers];

Specialist Services

4 **Note** that NZ Trade and Enterprise will continue to deliver a range of specialist information, advice and facilitation assistance aimed at addressing barriers to market development including:

- market evaluation and selection
- buyer/partner identification and selection
- identifying and qualifying international market opportunities
- market visits and in-market assistance
- market monitoring;

5 **Note** that NZ Trade and Enterprise will continue to support the deal brokering component of the Investment Ready Scheme on a contract for services basis;

Growth Services Fund

6 **Agree in principle** to replace Industry NZ's Business Growth Fund with the Growth Services Fund, which will offer support for high growth potential firms to purchase external advice and expertise and market intelligence and development services, subject to the report back referred to in recommendation (8);

7 **Agree** that, in designing the Growth Services Fund, NZ Trade and Enterprise should give effect to the following principles:

- 7.1 grants be for up to a maximum of 50% of the costs of the qualifying projects
- 7.2 it may be prudent to cap funding for certain types of activity
- 7.3 higher levels of accountability and sign-off should be adopted for projects of higher value and for travel costs
- 7.4 funding should also support the provision of market intelligence and development services by external providers
- 7.5 no funding should be provided for normal business expenses or activities that are supported by other government business assistance programmes;

8 **Direct** NZ Trade and Enterprise to report back to the Ministers of Finance, Industry and Regional Development, Trade Negotiations and Associate Foreign Affairs and Trade by 30 June 2003 on the detailed operation of the Growth Services Fund including criteria, funding caps for eligible activities and levels of delegation, approval processes, management of demand, and identifying how potential overlaps with FRST's Technology NZ programmes will be managed;

9 **Note** that the report back referred to in recommendation (8) will be developed in close consultation with the Ministries of Economic Development, Trade Negotiations, Pacific Island Affairs, Women's Affairs, Research, Science and Technology, Te Puni Kokiri, the Treasury, Tertiary Education Commission, and the Foundation for Research, Science and Technology;

10 **Delegate** authority to the Ministers of Finance, Industry and Regional Development, Trade Negotiations and Associate Foreign Affairs and Trade to approve the Growth Services Fund, subject to the report back in recommendation (8).

HON JIM ANDERTON
MINISTER FOR INDUSTRY AND REGIONAL
DEVELOPMENT

HON JIM SUTTON
MINISTER FOR TRADE NEGOTIATIONS

Appendix 1: Growth Services Model

